The Australian Finance Podcast Episode Transcript

Episode: ETF Review: BetaShares Global Sustainability Leaders ETF (ASX: ETHI)
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Speakers: Kate Campbell & Owen Rask
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Episode transcript:

Owen:
Kate Campbell welcome to this episode of the Australian Finance podcast.

Kate Campbell:
It is wonderful to be back, Owen, in our little studio.

Owen:
Yes, it is. For those of you that are viewing, you can see behind us what looks like eggshells and what you can't see is a partially completed studio. We are recording with the best side of the studio at the moment. And Kate, you do have a coffee there, a latte.

Kate Campbell:
From vacation, one of our favourites in Melbourne.

Owen:
Vacation coffee house. It's down from Flinders Street station, if you know that. But Kate, we're not talking about coffee today as much as we want to brag about our soy lattes or regular lattes. We're talking about ethical ETFs, and in particular, the ETHI ETFs, this is a deep dive. And this was chosen by the community, which I'll get you to run through in just a minute.

Owen:
But first, just a disclosure, a disclaimer, all that sort of stuff, even if we talk about the ETFs on the programme, it's important to remember that this is limited to general financial advice. If we talk about an ETF or any type of investing, it's important to remember that we're not tailoring this to you. That's what you need to see a financial planner for.

Owen:
And in particular, the ETFs, they are a form of managed fund. So that means they issue what's called a PDS, a product disclosure statement. Be sure to read that before you go through and invest in anything. Any ETF has them and they explain all the taxes, the fees, the risks, that sort of stuff.

Kate Campbell:
And Owen mentioned the word disclosure. And for full disclosure, neither Owen or I own a position in the ETHI ETF.

Owen:
Nor do we have a relationship with BetaShares or anything like that.

Kate Campbell:
No. And you can't invest directly as an individual in BetaShares because it is a private company.

Owen:
It is a private company, yes. So Kate, talk to us about this poll. What did the people say?

Kate Campbell:
So if you've been listening for a while now, you'll know about our regular ETF or share deep dives each month. And so this month I framed it around ethical ETFs. And so we got the data from our best ETFs website, found the five or so most popular ethical ETFs people were looking at and gave it over to the audience to decide.

Kate Campbell:
And I guess I just mentioned them, because I think when you are looking at different ETFs, it's good to have a few different options to start with just for your research. And so one of them, which we're going to talk about today was the BetaShares Global Sustainability Leaders ETF, which is ASX ETHI for your brokerage account, if you're having a look.

Kate Campbell:
There was also the VanEck MSCI International Sustainability Equity ETF. The ticket code for that is ESGI. There is the BetaShares Ethical Diversified High Growth ETF, which was a close runner up in the poll. Ticket code DZZF. So we've talked about VDHG in one of our deep dives before. It's a little bit similar, but with a different lens.

Kate Campbell:
There's the Vanguard Ethically Conscious International Shares ETF, ticket code VESG. And the BetaShares Australian Sustainability Leaders ETF, ticket code FAIR. And these aren't all the same ETFs, some are international summer Australians, some are a mix of everything. One is even a diversified portfolio. So it's got a bit of everything in there, but they're interesting ones to have a look at if you are looking more into ethical and sustainable ETFs and some different options there.

Owen:
There's many reasons but if we just look at the data for the ETHI ETF, I'm using data from the best ETFs website until 31st of December 2021. So this is the calendar year 2021. And that's not necessarily the longest period to judge an ETF, we should be looking at least three years.

Owen:
But in this instance, this is the top performing sustainable "ethical ETF". And the reason I'm saying air quotes, for those of you that aren't watching the video is that this is an ethical ETF, that's how people identify it. However, I think it's important to differentiate between ethical and sustainable. In our ethical investing course, we make this point, we say that basically ethics is a personal thing. It's a personal decision. What are your values? And your values, how are they reflected in your portfolio?

Owen:

That's very hard to capture in one ETF. I don't think anyone wakes up every day and goes, "Oh, the ETHI ETF is my ethics." No one really says that, but it's clear that it's a sustainability focused ETF. So fossil fuels excluded, we'll get to that in a minute. So let's frame it as what it is a sustainability ETF or an ETF focused on sustainability.

Owen:
But from 2021, the ETHI ETF returned around about 31%, which was the most of the ethical ETFs on the ASX just beat the VESG ETF. And so it's obvious that why it's popular. It's done really well. It's also big, it's got over two billion invested in it where some of them are only 50 million. So they're quite a bit smaller. The fees aren't that high and the marketing is good.

Kate Campbell:
And I think as we'll get into a little bit further on part of the performance is because it has a lot of tech companies in it, US tech companies, which have done really well over the past few years.

Owen:
Exactly. So we'll lift a lid on this in just a minute, but it's easy to see why it's popular. Thank you for those of you who voted. Remember that we do do shares one month and ETFs the next. So jump into the Facebook group. There's a link in the show notes. Jump in there, have your say, we listened and we've got a few companies coming up, which are basically what came second or what was nominated by other people in our community, not just us. Cool, Kate. Let's dig into it.

Kate Campbell:
All right. Some quickfire facts on the BetaShares Global Sustainability Leaders ETF before we dive into the more interesting bits about how the ETF actually filters companies. But according to BetaShares, this ETF aims to track the performance of an index, which in this case is the NASDAQ Future Global Sustainability Leaders index. And when I had a look, they've pretty much created this index just for BetaShares to use because no other ETFs are actually using this index. And it's just a portfolio. I think we had a look before, was it 200 companies also?

Owen:
Yeah.

Kate Campbell:
Of large global companies that are identified as climate leaders that have also passed screens to... What did I say? There's large global companies that are identified as climate leaders? So they're excluding companies that have significant exposure to fossil fuel or are engaged with other activities that are deemed inconsistent with their responsible investment considerations, which I'll mention a bit further, because they do have a filtering process and you can really, really see what the viewpoints are on different issues, like even junk foods mentioned in there.

Kate Campbell:
So I thought that was an interesting one. And it's also been certified by the Responsible Investment Association of Australasia, RIAA, as part of their responsible investment certification programme. So it's a bit of a mouthful.

Owen:
So the RIAA is something that you'll see across a lot of managed funds and ETFs. Interestingly, some of the funds like say Vanguard's ethical solutions, they don't post things front and centre like, "We've done this, we've done that on the ethical side." I don't know why, maybe it's a decision that they consciously make.

Owen:
But BetaShares front and centre they're saying this is an ethical or sustainability ETF. This is what it does. This is who we've been certified by. So they make it very clear. And I think they do have quite, like to stand on here because they were one of the first in the space. And also it is a good ETF from a screening point of view. Whereas some of the, I know we've got a comment on this from the Facebook group is basically like, is it greenwashing? This is the investment firm's version of saying that this is good for the planet where this actually is. By all accounts, this actually seems to do what it says. So it's nice.

Kate Campbell:
And it's been going for a while. So it started around in January 2017. So quite a longstanding Australian ethical ETF. A lot of them have only jumped in the bandwagon on the last couple of years. So this has been around for a really long time. And I think the funds under management is also reflective of its track record and how long it has been around for.

Owen:
That's it. So it's got two things going for it. One, it was like one of the earliest in this space and two it's got really good performance. So what does that mean? Well, financial advisors can recommend it because it's been around for long enough. So they've got a good track record and people that were already investing it in it are keeping their money invested or investing more because it's done so well. So then it just keeps feeding on itself. And so that's why it's so much bigger than the others.

Kate Campbell:
I was amazed when I saw it was two billion funds under management.

Owen:
It's a huge ETF by Australian standards, particularly given it's a niche one, we could still say, maybe it's not so much niche anymore, but it's still one that it's not normal, we could say that. So the ETF registry, just a quick mention of that is Link Market Services like all BetaShares funds. So this is where you'd go. You'd go to Link Market Services to register for a distribution reinvestment plan if you want your dividends to be continually invested.

Kate Campbell:
Add your tax phone number, change your bank account details.

Owen:
All that sort of stuff. Make sure you do that because it's good for tax, it's easier, and it also allows you to just manage your investments. If you've got a link account, you can do it all in one account.

Kate Campbell:
Okay. And management fees is 0.59% per year. So that's $5.90 per $1,000 you invest in the ETF.

Owen:
I know this is one of the points, maybe it's worth covering here. So 0.59% that's taken out automatically every day so you don't notice that it comes out of the share price.

Kate Campbell:
You do not get a bill.

Owen:
And they love that because you don't actually know. Imagine if you went to mackers and you didn't ever see the bill, you just got the mackers, you would just go there every day. So the thing about this is one of the questions and one of the pieces of feedback that we always get is why would you invest in ETHI when you can invest in one of the diversified funds for a lesser fee.

Owen:
So it's just a backtrack on this a little bit. So with ETHI you get global exposure, with FAIR you get all the exposure. So they're two different ETFs, FAIR and ETHI. One is global, one is Australian. You can bundle them together in a pre-made. Remember those diversified ETFs that we've talked about. That's one of the ETFs that we've recommended in the past at Rask, is DZZF ETF.

Owen:

Now, this is still very small, which I'm surprised about. Because basically the way it works is it bundles the ethical options from BetaShares into one and they make it cheaper. So what they do, when I spoke to them on the phone, is they pro rata refund the fees that would apply on ETHI into the bigger ETF, the DZZF ETF.

Owen:
And the point is that you can, if you want to, with BetaShares, build an ethical portfolio or start the core of your portfolio. It's not like a one stop shop, you would build around it, but you can do that, and that's personally what I'd prefer to do.

Kate Campbell:
And it's quite interesting as well, because ETHI has a hedged friend, which is called HETH, which is where they have a hedged version of ETHI. So it's pretty much the same thing, but hedge. So they've really got a few different products that you can bundle together to get different exposures.

Owen:
That's it. From my understanding of the ETF industry, it's not that much more expensive to do the hedged version or more complicated while you're creating an ETF, say like ETHI to do then the hedged version, which cancels out the currency, obviously with a hedged version, just for those listeners who don't know what hedged means, basically you're trying to remove the impact of currencies going up and down.

Owen:
So for example, if you believed over the next two years that the Australian dollar might fall, would you hedge, would you unhedge? You would just make that decision. Personally, I don't think I've got any hedged ETFs in my portfolio.

Owen:
But anyway, so DZZF just as a slight digression, just to highlight this and make this an obvious comparison. This ETF invests in ETHI and it invests in FAIR and it also invests in a small bond ETF. There's a question about the bond ETF, which we'll go to in a minute. But I just want to highlight that when we talk about fees, that there is another solution there that's cheaper.

Kate Campbell:
And in terms of just quick facts, the distribution is semi-annual and you have full or partial dividend reinvestment plans available, which you can set up through Link Market Services. And it has had quite a high we're talking about that before distribution yield over the last few years.

Owen:
This is the thing about ETFs, if you go to the ETFs website and you look at where it's got distributions, just be really careful because normally when we talk about a dividend share, let's say we invest in BHP and we log into our brokerage account and it says, dividend yield 5%. That dividend yield typically comes back to you through the cash of the business, the business is making a profit.

Owen:
With an ETF, because of the legal structure, it's a fund. It has to distribute things too. So meaning that it has to send money back your way, even if it doesn't want to, because you are the response, you are the ultimate owner of that investment.

Owen:
And so what can happen is it's not necessarily just profits from the companies that are being invested in, it can also be capital gains that are coming back to you. That's why you get that annual member letter from your ETF provider, because it breaks it all down. So you to put on your tax return. So don't be fooled by that necessarily. If you're going to look at something like that, I would encourage you to look at the index provider.

Owen:

So go to the index provider's website, not the ETF, and look and see if they have an estimated yield. Like some of the big ETFs, like I think iShares does this nicely. On their website they have estimated yield. I think Vanguard calls it equity yield. That's just their estimate of the actual dividend, not the capital gains.

Kate Campbell:
And just for performance, I'd recommend going onto the BetaShares ETHI website. You can have a look at the chart and the table version of the fund returns since inception. So it's a really good idea to look at more than one year of historical performance, so you can really get a full view of how everything has returned and look at it with different date timeframes as well.

Owen:
Let's highlight that again, that the risk statement here, past performance is non-indicative with future performance. Although, the better saying would probably be history doesn't repeat, but it probably rhymes if you look out over a long enough time.

Owen:
So the point is that over, say, three or five years, you probably get a better indication of what the annual returns might be. All that said, you raised it before Kate, this ETF invests a considerable amount in technology and in particular United States listed companies.

Kate Campbell:
[crosstalk 00:14:54] 71% of the allocation is in US.

Owen:
So that's a big allocation to one country. And I'll take the words out of your mouth here, at the time that we took this 31, March 2022, 40% of that is in IT and the next biggest allocation.

Kate Campbell:
Healthcare is 17%, financials 15%, consumer discretionary 13%, and then the fifth biggest allocation is at 4%, which is real estate and everything else is much smaller than that. So I guess it really goes to show how much, if you're investing in this ETF, you're getting a significant exposure to the US investment market and a significant exposure into technology companies.

Owen:
So there are some websites around, like Morningstar does this, but also the Vanguard website does this where you can compare to ETF side by side. And if you had, for example, let's say you have the IVV ETF, which is the really big one, it's listed all around the world, but it's also here in Australia. If you invested in that ETF, you're getting the USA S&P 500, then if you put this one also in your portfolio, you're going to get a lot of overlap. We're going to talk about some companies in a sec, but you're going to get a lot of companies that overlap.

Owen:
So this is where it's also tactical from BetaShares because by offering this ETF, what they're effectively saying is give us the majority of your money because you might invest in this other ETF, but that doesn't align with you ethically. You can still get good exposure to the US by investing in this, but just be mindful.

Owen:
We see this a lot in portfolios, is someone might have like 15 ETFs and they might have like five ETFs that are all invested in technology in the United States. Point on the ethical side of things, it's easier to be a ethical company if you're in technology. It's a lot easier.

Owen:
Imagine you're Google and you've got a search engine. That's one company. And then imagine you're making clothes. You're making clothes for corporate attire or something. How much easier is it to try and make your business

ethical, run on green energy and stuff if you're Google versus this place that might have a warehouse might have overseas distribution and supply chains? It's a lot easier.

Owen:
So that's why in these ethical ETFs, we often end up with a lot of tech. So as we alluded to with the US, you also want to make sure that you're not just the outright technology exposure in your portfolio as well.

Kate Campbell:
It's interesting. Because when you look at an ASX 200 ETF, you usually have a really high exposure to materials, which is in here, it's only 0.3%. So you're stripping out all of that energy production and things like that.

Owen:
And that's because it says it on the tin. This ETF is deliberately trying to avoid fossil fuel. So you're not going to get coal heavy businesses. One of the things that's in the fact sheet here, which if I just read it, a dollar invested in ETHI's portfolio results in 93% lower carbon emissions than a dollar invested in the selective global developed market index.

Owen:
So basically what they're saying is compare these two portfolios, 93% low emissions. And that's because it deliberately avoids fossil fuels. And that's even in your point is, Kate, that you can marry this with a portfolio that might have materials if you're okay with that ethically, of course. I think it's a good ETF at the end of the day.

Kate Campbell:
I think it's just important too when you're investing in ethical ETFs, especially one that has a lot more filters. This one does have a lot more filters than some of the other just where they strip out certain things. You are getting a larger allocation to certain industries that you wouldn't have had otherwise and US market as well.

Kate Campbell:
So I think when you're looking at your overall portfolio of diversification, it's really important, especially if ethical ETFs still look at that portfolio holdings and the sector allocation and even the country allocation to know how this fits in your overall portfolio.

Owen:
That's it. And that's the key point. Some people ask, "How many ETFs do I need?" And the key question is, well, what do you want to be invested in basically? And the way I heard this best put to me was when I was a fund management researcher and the senior analyst at the time would always say, "What's the best expression?"

Owen:
So if you're trying to express a view like, "I want to invest ethically," that's the expression that I'm trying to capture? "How do I express that view in my investment portfolio?" And for a lot of people, it comes down to, "How much time do I have? Which companies do I want? Which companies don't I want?" And then just try and capture that as efficiently as possible.

Owen:
So we've talked to a few investors recently who basically say this, focus on where you can win. Like if you think, "I want the best ETF that's investing ethically in United States shares." Well, this one might be the one, not saying that it is for you, but it might be for someone that listens to this. And so go and do that. But then in other parts of portfolio, you might be a bit more active, a bit more passive, whatever you want to do.

Kate Campbell:
And I think the next big question is, how does BetaShares actually screen this portfolio or the NASDAQ index? But BetaShares have worked with them to developers. So what are the rules? How do they figure out what the top holdings are that go in there? Because I'm looking at the top 10 holdings, now it's like a really interesting array of companies, but there is a lot of tech in there. We've got Apple and Visa, MasterCard, there's Home Depot, there's even Toyota Motor group, so that's another interesting one.

Owen:
That's interesting, isn't it?

Kate Campbell:
Adobe, Cisco, and a one you mentioned to me before, which was ASML Holdings.

Owen:
So did you want me to go through a couple of those names now or did you want to talk about the screening first?

Kate Campbell:
I think talk about screening first and then maybe how those companies fall into that. But I think the screening is the most interesting part when it comes to these ethical ETFs, because the reason you're investing in an ethical ETF is because you want to invest in something that aligns with your values in the most case.

Kate Campbell:
And so you actually want to find out, "Does this ETF in the majority align with my values?" And so what I'd really want to look at is their guidelines. And so BetaShares actually have a good document, which is called their exposure limit guidelines for BetaShares, ethical share ETFs.

Kate Campbell:
I'll include this link in the show notes because I think that's really important if you're thinking about ethical ETFs to look at these guidelines. But they have the percentage of total revenue in different companies that they will limit. They won't invest in this company if it exceeds this amount of revenue from tobacco production or from junk food, which I thought was interesting. And even they're looking at things like board diversity, even payday lending is mentioned in there, gambling, fossil fuels.

Kate Campbell:
So this ETF does a little bit more than just looking for carbon leaders. They also have these other screens as well, where they're looking for companies without human rights issues and they're looking for companies that focus on diversity and things like that.

Owen:
I think that the ETF providers actually do a pretty good job of getting this information from their index providers, the companies that put their portfolio together for them. They actually do a pretty good job with this. BetaShares does a good job of this.

Owen:
Not many people know that you can actually click through the websites and find the way these things are created. And there's sometimes the documents like 20 or 30 pages long of what they look for and how they do it. But I think the key differentiator with BetaShares over some of the other ETFs in the market, is it actively targets climate leaders. That's what it's targeting.

Owen:
So instead of just saying, "We're not going to invest in this, we're not going to invest in this. We're not going to invest in this." It actually says, "Well, which companies are doing the most?" And that's one of the key differentiators here. And so BetaShares calls these climate leaders.

Owen:
And I think that's a really good approach because it can be a bit divisive for some investors, because they're actually saying, "These are the ones we're targeting." And some investors actually don't like that. It's funny, some investors don't want to be told what to do. So that's why they prefer the negative screenings from marketing perspective. But this ETF effectively does that and it whittles it all the way down to 200 companies, which are basically these climate leaders.

Kate Campbell:
And it has really a four-step screening process from what I can see. Firstly, they look for global large companies.

Owen:
Global big companies.

Kate Campbell:
So they're not looking for your 10 million small cap.

Owen:
That's it.

Kate Campbell:
They're then looking for climate leaders, which they describe as companies that are in the top one third of performers in terms of carbon efficiency for their industry or engaged in activities that can help reduce carbon use by other industries. So they then apply that screening. They then look for socially and environmentally acceptable, so they're looking at the other bits of the ESG screening and then they move that down to the largest 200 remaining companies.

Kate Campbell:
And they'll look at all those other factors that they have in their exposure limit guidelines document about animal cruelty, and alcohol, and junk foods. So I think that's an important document to have a look at. Not only are you getting the climate leaders, but you're also getting all these other exclusions as well.

Owen:
Let's get some examples here. Because there's some examples that BetaShares includes for us like Estee Lauder, which people will know for cosmetics and whatever, that's excluded for animal testing reasons for product sold in China. I haven't heard of this company, McKesson Corporation, is facing a multi-billion dollar settlement for its alleged role in the US opioid crisis, which is something you probably wouldn't expect.

Owen:
I'm going to exclude companies that are maybe involved in a drug epidemic or something like that. Prescription meds, we've all heard about it. Facebook excluded for multiple reasons. Coca-Cola because of the sugary problems, like fizzy drinks are not good for you. And Chevron, one of the largest polluters in the world. So these are examples that they gave us.

Kate Campbell:
Of what they're excluding from there.

Owen:
What's not in their portfolio. So I think that's good too.

Kate Campbell:
Which would've fallen under a large cap company otherwise.

Owen:
And so you can see how it comes down. Imagine the filtering process, like a filter, like a sea that you have in the kitchen and it goes through one sea, through the next one, through the next one and every time a sum knocked out.

Kate Campbell:
The holes are a little bit smaller.

Owen:

That's it. And so things get knocked out. And maybe we can just talk about a couple of the big positions. Is that [crosstalk 00:24:54].

Kate Campbell:
I know we mentioned a couple in the top 10, but if you wanted to expand on a few.

Owen:
So maybe you asked me off there, like which companies would I want to talk about? I'll be brief because this is more about ETFs than it is about individual companies. But Apple is one of the biggest holdings. We all know Apple. And it is very active in climate. And it's got new buildings, you can go on the Apple website, you can see the infinity loop and all this sort of stuff. And Apple's obviously very focused on supply chain too.

Owen:
So the thing is to be mindful of Apple as a hardware as software company, there have been things over the years, like there have been some stories out of different parts of Asia where people that are working on supply lines for Apple and they've talked about like conditions and whatever. But for the most part, it's trying to do the right thing.

Owen:
Nvidia is in this portfolio, it's actually the biggest position. It's probably because it's performed so well. Nvidia creates graphics cards, which is really interesting because people thought that the shift away from mobile computing and Apple in particular making its own chips shift away desktop to mobile computing would've been a big issue for Nvidia. But you know what saved this company for a big period of time?

Kate Campbell:
Games.

Owen:
Games and? There's another one, Bitcoin. So people were buying the graphics cards that were using Nvidia technology and using that to mine Bitcoin and mine on the blockchain. Because a graphics card is more powerful for this type of computing because it can do thousands, if not more computations per second, whereas a CPU can only do typically one or two, it does a lot in that second, but that's the idea.

Owen:
Some other companies that are in here, ASML Holdings, which a lot of people probably don't know, is made up of a lot of technology ETFs. So if we talk about CPUs, about microchips and that sort of stuff, people have talked about being a shortage. We've heard the price of electronics is going up because of this. There's been a delay on buying your Xbox, or your PlayStation, or your computer because of this, or iPads are out of stock.

Owen:
This is actually the real reason, is that when it comes to microchips, semiconductors, that sort of stuff, there are only a few players in the world that can do this. So Taiwan Semiconductor is one of the big names. Obviously it's very strategically important for countries as well.

Owen:
But ASML does a really interesting thing in the supply chain of semiconductors. Okay, this is a nerdy thing, but it actually creates machines that it only creates, no other companies in the world create. So basically the entire world of electronics is dependent on this business. And this business creates this machine... I'm going to butcher the science here, but basically like it shoots light through something and it shoots onto the microchip.

Kate Campbell:
Sounds very scientific.

Owen:

We're talking about nanometers here, like tiny, tiny, tiny little things that go onto these microchips and onto these boards. And it's just incredible this machine that they make. And they basically make the machine that then goes into fabs, the big places and the foundries where the semiconductors are made, but they own the machine. I know I'm getting nerdy, I can see the smile on your face. Anyway, it's a super interesting business, ASML, go and look it up. If you're investing in ETHI, just have a look at what this company does.

Owen:
And another one that I've mentioned here, which is more like gen pop is Adobe. Everyone knows just Photoshop it. I actually own shares in Adobe, full disclosure and Apple and Facebook and Alphabet/Google. But Adobe obviously has Photoshop. It has a bunch of other digital experiences that it's trying to build. So it's not just Photoshop, it's not just Adobe Acrobat or the PDF reader, there's heaps to it.

Owen:
Monique, a producer here, she's nodding. She knows Adobe. You've got Premiere, you've got heaps of different applications that come from Adobe. So this is all what you get inside ETHI.

Kate Campbell:
Wonderful.

Owen:
I'm just [crosstalk 00:29:06].

Kate Campbell:
So for people who are a little bit less interested in the tech, but are interested in how ETHI could be used in their portfolio.

Owen:
How could they do it?

Kate Campbell:
Yeah. Would you consider ETHI as a core position? We talk about core and satellite quite a bit on the podcast.

Owen:
Yeah. I would. I would. But again, what I'd defer to is the diversified ETS from BetaShares. Because I'm like, why wouldn't I pay half as much? Or not quite half as much, but like it's a lot cheaper to also bundle in some Aussie shares. That's the whole, BetaShares are trying to make it so tempting that you really cannot-

Kate Campbell:
How much is DZZF management fee at the moment? I'm having a look.

Owen:
I've got it right here in front of me. So the management costs 0.39.

Kate Campbell:
Wow.

Owen:
So it's 0.39 versus 0.59.

Kate Campbell:
But it's much smaller, it's only got 34 million funds under management.

Owen:

Still not a lot of money invested in it. And that could be for multiple reasons. People like financial advisors don't like it's got a limited track record. They might also think that why would I do that when I can just build my own? It's an ETF that I really like and one that we recommend.

Owen:
But at the end of the day, so how would you use ETHI in a portfolio? I think you could use it two ways. You could use it as your satellite approach, where you have a more tactical investment. You say you're investing three to five years out into the future, or you could slowly build into that core where your dollar cost average.

Owen:
I think the reason why it can be used as both is because if you wanted to push it into your satellite and have it as like a riskier exposure, you could justify that because it is mostly US listed. It's got a lot of tech in there, so it's probably going to have a bit more volatility. But if you wanted it in your core, you could use it as that core global exposure as well. You might want to complement it with something that is a bit more broad.

Owen:
But you could use that as well. Let's talk absolute basics. You could use ETHI as your very first investment, because you could start with $2,000 in ETHI while you build up and save for the next ETF, because it aligns with your ethics and it's a good starting point.

Kate Campbell:
Awesome. And if you are interested in buying units of ETHI, the first step is opening a brokerage account. And I'll link to our two-part series that we did on choosing a brokerage account and setting up your share registry, but even just some names of brokerage accounts. So you've got some floating around when you're doing your research include COMSEC, Stake, Perla, SelfWealth, and Shezy. So just some different ones to explore when you're getting started, because there are quite a number out there. And even if you just start by adding one of these ETFs to your watch list and so you can just keep an eye on it for a while-

Owen:
Good one.

Kate Campbell:
... you might even add all the five ones that we are in the poll just for when you're researching, add them to your watch list, just to get you started. Because I have mentioned it to a few people when they're really confused and overwhelmed getting started. If you start adding a few things to your watch list, you can go in and have a look. It just reminds you and prompts you to have a further investigation into each of them.

Owen:
For sure. And that's it, you've got to use a brokerage account to buy an ETF. So you can start small. That's the key point, you can start small. You don't have to bet the house on it. The names that Kate just brought up there, we're not endorsing any of them, but we're just saying.

Kate Campbell:
And we definitely don't endorse betting the house on any one thing.

Owen:
No. Definitely not. But if when you're starting out, you might only have $2,000. So if you are, you just get started. Kate, we've got some, I guess you could call them comments or questions that have come through. I think we might have answered one or two of them.

Kate Campbell:
I think when we did the poll in the Facebook community, there was some really interesting comments and suggestions brought up, which I thought we could just address briefly. Some of them probably weren't a little bit more explanation in an episode or something like that for a Q&A, but one of them was more about the ESG landscape and

how so many companies now have quite large ownership positions by BlackRock and Vanguard, which are two of the world's largest ETF index fund providers.

Owen:
The comment was basically like some CEOs and board of directors are getting concerned the ETF providers are getting so big. And then because they get so big, they can elect someone to the board of directors who may have no investing or business experience whatsoever, but they have the legal right to appoint someone. And so some CEOs and boards are being really concerned.

Owen:
To give you an example, we saw in the last few weeks, we're recording this on April 19th, 2022, Elon Musk lodged an acquisition or takeover offer for Twitter.

Kate Campbell:
Good publicity activity.

Owen:
He was going to join the board, then he didn't, then he launched the take over a phone. And the whole thing there was like he was going to take it over, it was going to be a bit of a shake up and what have you. But then people saw that Vanguard was also one of the largest shareholders on the share registry of Twitter and they're like, "What's this Vanguard thing? Who are they and what do they think?"

Owen:
And a lot of people miss the point that Vanguard holds money on behalf of the ETF and index fund investors. So if you own some of the global Vanguard fund, just making something up, you might have a tiny, tiny, tiny little ownership in Twitter and Elon Musk is trying to take over your company.

Owen:
And how do they deal with that? Well, a lot of the times the ETF providers and the index fund providers have a set rule on how they vote on things, how they make decisions. But it's an interesting thing. And for the ESG part of this, I guess it comes back to how does the index provider and the ETF issuer deal with these issues? They normally have a corporate governance team.

Kate Campbell:
And even as we've spoken to some people from superfunds, they've often got their own corporate governance rules on how they talk to companies and vote on issues, which I think is really interesting if you are a bit more involved in how ETFs and your superfund are run, asking for how they vote and deal with companies on key issues, especially if they're slightly more activist funds or ETFs.

Kate Campbell:
Because some of the superfunds do get more actively involved in different companies. So it is a good thing to ask and they will probably be able to tell you how they will vote and if they're passive or they're a bit more of an activist approach.

Owen:
And they do have documents on this too. Some of the big superfunds, so not necessarily ETF providers, but some of the big superfunds tell you how they vote. They have a record of how they've voted, how they've engaged with stakeholders too, like individual companies. And this is going to become a bigger and bigger issue going forward. But what we'll see is that the index fund providers, as a proxy for their individual investors like us, they will take stances as well, they'll have to, and we'll see that more and more.

Kate Campbell:
There was also another comment saying, are they really ethical, all of these ETFs or are they just being sold with pretty lights and sparkles? Which I think we've had a look and some of them are a bit more of just the pretty lights and

sparkles. But I think this one, I mean, it really depends what your values are, but it does seem to take a much more serious approach to the way it screens our companies.

Owen:
It does. And at the end of the day, like we said, at the top of the show, unless it identifies with you exactly like your ethics, if you got... In our ethical investing course, we have this document that you can download. And it's basically got like all of the things that you care about and you tick the box.

Owen:
And basically what it's trying to do is trying to help you identify your investing values or your personal values and then reflect it into your investing. Because a lot of people say that they're an ethical investor and they don't want to invest in fossil fuel, but then they have an ETF that invests in it.

Kate Campbell:
And I think even getting their exposure limit guideline, it's just a one page A4 document. If you just go through that list, there's about 10, 15 things mentioned there. Well, do you have a viewpoint on alcohol production? Do you have a viewpoint on animal cruelty? Do you have a viewpoint on tobacco production? You can go through all of these items and go, "Where do I stand end on each of those issues? Do I stand in a similar enough position to how BetaShares stand for this ETF to be the right one for me?" And it might not be, and you might have to go hunting.

Owen:
And that's the thing. You might have to. And I think that's a good point, is close enough might be good enough.

Kate Campbell:
And I don't think you're ever going to find something that's 100% in line with your values because there's so many issues they're looking at and that's not all the issues. So you're never going to find the perfect match if you are looking for an ETF or a superfund, there's always going to be a company or a issue that you're not perfectly aligned on. But I think if you're looking for an ETF to invest in that's ethical, you're going to have to make some choices eventually.

Owen:
So there's an option for you. You can be an individual share investor and you can just go invest in companies like Apple, for example, if that's what you wanted to invest in because it aligns with you ethically.

Owen:
But there is actually something emerging here in Australia, which has been in the United States for about five to 10 years, which is called direct indexing, or it has different flavours. But basically the idea is that you would be able to log in to your ETF provider and select your own amounts.

Owen:
So let's say as a hypothetical example, this isn't here yet, by the way, this is a sign of things to come. When you buy an ETF, you basically are beholden to those rules. So for example, 20% of revenue can't come from fossil fuels, I don't know, example. You might log into this new age investment firm into their website and you might say, "I only want 5%." And they will automatically calculate an index for you and that will be your portfolio.

Kate Campbell:
So you get Kate's ethical index.

Owen:
That's it. So you could then modify it yourself. So that's something that's coming down the line. But until then, it's basically yes, some of them are ethical, but a lot of them, I don't know who asked this question or made this point, a lot of them are sparkles.

Kate Campbell:

And there are a few other comments about comparing some different ethical ETFs, looking at active ethical ETFs. So if you are interested, I think we can definitely do another episode that maybe we deep dive on a range of ethical ETFs and compare them and how they could all fit together and building an ethical ETF portfolio, and what does that look like?

Owen:
That's it. There was a question about doing individual comparisons, like you can become a member of our service, which is Rask ETFs, that's probably the easiest. I just ask this question there and I'll include it in the monthly. But we've looked at all the ethical ETFs. We've looked at all the index funds, the Australian shares and we've come up with the portfolios. So those who are chosen ones, then you can find out more by being a member. But I guess there's so many different ETFs we can talk about. We're going to talk about at least six more over the next year.

Kate Campbell:
There we go.

Owen:
And we're going to talk about six more shares too.

Kate Campbell:
And if you are interested in learning more about this particular ETF, ETHI, I'd definitely recommend starting on the BetaShares website, just Google ETHI ASX and you'll find the page on the ASX website and the page on BetaShares website. They have heaps of information guides because it's a different kind of ETF. So they got a lot of information and how it all works and what the science is and what they're doing that's different.

Kate Campbell:
We also have more information on ETF investing and ethical investing on our Rask education side in our courses. So they're fantastic resource and I'll include in the show notes. And of course, if you want to join our ETF membership service, it's lifetime membership to get started, you can use the coupon code AFP for the Australian finance podcast and you only have to pay $49, which is [crosstalk 00:40:43].

Owen:
It's pretty good. We actually do get a lot of people just signing up organically. We don't do our memberships, which is pretty cool. You and I check this. Just to reiterate Kate, we've got the ethical investing course. We've got the ETF investing course. Use the BetaShares share's website, use the best ETS website, there's so many resources, just see it all in the show notes.

Owen:
But this is a good ETF. At the end of the day, it's a good ETF. I would encourage you to compare it with the DZZF ETF. There's one from VanEck which is pretty good. There's a bunch of different ethical or sustainable ETFs out there now and it's great to see them coming along. I think we should reinforce that point.

Kate Campbell:
It is fantastic that there's more options and more different filters because it is still hard. There's not an option to have your own filter unless you're individual share investing. So it is a good idea to compare different ones and really sink your teeth in and do your research if this is an area that interests you.

Owen:
And if you are investing for the long term, which we are, why not invest ethically? One of the things we haven't talked about, and it's mentioned in the course, is it doesn't cost the earth is in returns to invest ethically. There's this kind of misconception that if you invest in an ethical portfolio, you're going to give up because all tobacco companies and gambling companies make super profits. That may be the case, but some of these companies are also great too. So I mean, Apple.

Kate Campbell:

Wonderful. Well, I think we should wrap up there Owen. But thank you everyone for listening.

Owen:
Kate, as always, thanks for joining me.